



Washington State Auditor's Office

Troy Kelley

Integrity • Respect • Independence

Financial Statements Audit Report

King County Water District No. 125

For the period January 1, 2013 through December 31, 2013

Published December 31, 2014

Report No. 1013377





Washington State Auditor Troy Kelley

December 31, 2014

Board of Commissioners
King County Water District No. 125
Tukwila, Washington

Report on Financial Statements

Please find attached our report on King County Water District No. 125's financial statements.

We are issuing this report in order to provide information on the District's financial condition.

Sincerely,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

TABLE OF CONTENTS

Independent Auditor's Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards	4
Independent Auditor's Report On Financial Statements	6
Financial Section.....	9
About The State Auditor's Office.....	35

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**King County Water District No. 125
January 1, 2013 through December 31, 2013**

Board of Commissioners
King County Water District No. 125
Seattle, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of King County Water District No. 125, King County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated .

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be

material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

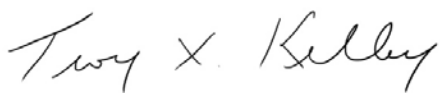
COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

December 23, 2014

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

King County Water District No. 125 January 1, 2013 through December 31, 2013

Board of Commissioners
King County Water District No. 125
Seattle, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of King County Water District No. 125, King County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 9.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances,

but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of King County Water District No. 125, as of December 31, 2013, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

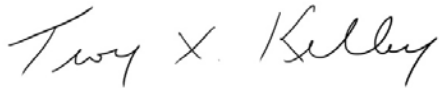
Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10 through 14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and

other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Troy X. Kelley".

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

December 23, 2014

FINANCIAL SECTION

King County Water District No. 125 January 1, 2013 through December 31, 2013

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2013

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2013

Statement of Revenues, Expenses and Changes in Fund Net Position – 2013

Statement of Cash Flows – 2013

Notes to Financial Statements – 2013

Water District No. 125 of King County
Management's Discussion and Analysis
Year Ended December 31, 2013

Brief Discussion of the Basic Financial Statements

The District's financial statements include a Statement of Net Position, a Statement of Revenues, Expenses & Changes in Fund Net Position, a Statement of Cash Flows, and Notes to the Financial Statements. The financial statements are prepared using the accrual basis of accounting and conform to generally accepted accounting principles as applicable to proprietary funds of governments. The intent of the management's discussion and analysis is to provide highlights of the District's financial activities for the year ended December 31, 2013. Readers are encouraged to read this section in conjunction with the accompanying financial statements.

The statement of net position provides a record, or snap shot, of the assets and liabilities of the District at the close of the year. It provides information about the nature and amounts of investments in resources (assets), and the obligations to District creditors (liabilities). It provides the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

The statement of revenues, expenses, and changes in fund net position presents the results of the business activities over the course of the year. This information can be used to determine whether the District has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The statement of cash flows reports cash receipts, cash payments, and net changes in cash resulting from operating, financing, and investing activities over the course of the year. It presents information regarding where cash came from and what it was used for.

The notes to the financial statements provide useful information regarding the District's significant accounting policies, explain significant account balances and activities, certain material risks, estimates, obligations, commitments, contingencies, and subsequent events, if any.

Condensed Comparative Statement of Net Position

The following condensed statement of net position presents the assets of the District and show the mix of liabilities and net assets used to acquire these assets:

	<u>2013</u>	<u>2012</u>
<u>Assets</u>		
Current Assets	\$ 2,109,396	\$ 1,903,489
Noncurrent Assets:		
Capital Assets - Net	<u>10,174,809</u>	<u>10,229,575</u>
Total Assets	<u>\$ 12,284,205</u>	<u>\$ 12,133,064</u>

Water District No. 125 of King County
Management's Discussion and Analysis
Year Ended December 31, 2013

Condensed Comparative Statement of Net Position (Continued)

	<u>2013</u>	<u>2012</u>
<u>Liabilities</u>		
Current Liabilities	\$ 317,505	\$ 234,002
Noncurrent Liabilities:		
Long-Term Debt	1,048,177	1,136,705
Other	<u>93,546</u>	<u>97,311</u>
Total Liabilities	<u>\$ 1,459,228</u>	<u>\$ 1,468,018</u>
<u>Net Position</u>		
Net Investment in Capital Assets	\$ 9,037,105	\$ 8,992,649
Unrestricted	<u>1,787,872</u>	<u>1,672,397</u>
Total Net Position	<u>\$ 10,824,977</u>	<u>\$ 10,665,046</u>

Analysis of the Condensed Comparative Statement of Net Position

Assets

Current assets consist of cash and cash equivalents held in the maintenance fund, which is unrestricted and can be used for day-to-day operations. The balance in the maintenance fund increased by \$244,241 in 2013 due to decreased purchases of capital assets and a decrease in cash paid to suppliers. Current assets also include customer accounts receivable, accrued utility revenue, inventories and prepayments. Prepayments decreased by \$35,320 primarily due to an overpayment on water purchases in 2012 that did not recur in 2013. Customer accounts receivable and accrued revenue did not materially change from 2012.

Noncurrent assets consist of net capital assets, which includes land, construction in progress, utility plant, equipment and intangible assets, less accumulated depreciation. Net capital assets decreased by \$54,766 in 2013 due to depreciation partially offset by capital additions.

Liabilities

Current liabilities include accounts payable, deposits, accrued interest payable on debt and the current portion of long-term debt. Current liabilities increased by \$83,503 in 2013, primarily due to an increase in maintenance fund accounts payable caused by increased accrued water purchases and elections costs.

Noncurrent liabilities include compensated absences and the long-term portion of Public Works Trust Fund loans. Noncurrent liabilities decreased by \$92,293 in 2013, primarily due to required payments of loan principal made during the year.

Water District No. 125 of King County
Management's Discussion and Analysis
Year Ended December 31, 2013

Analysis of the Condensed Comparative Statement of Net Position (Continued)

Net Position

Net position consists of total assets minus total liabilities. The District's net position increased by \$159,931 in 2013. Over time, increases or decreases in the District's net position are an indicator of the District's overall financial growth. An increase in net position is a positive sign of the District's financial strength.

Condensed Comparative Statement of Revenues, Expenses & Changes in Fund Net Position

The following statement of revenues, expenses and changes in fund net position presents the annual surplus or deficiency of revenues over expenses (the change in net position):

	<u>2013</u>	<u>2012</u>
<u>Revenues</u>		
Water Operating Revenues	\$ 2,983,012	\$ 3,015,480
Nonoperating Revenues	<u>353</u>	<u>8,578</u>
Total Revenues	<u>\$ 2,983,365</u>	<u>\$ 3,024,058</u>
<u>Expenses</u>		
Operating Expenses	\$ 2,498,392	\$ 2,426,162
Depreciation & Amortization	382,243	369,767
Nonoperating Expenses	<u>16,101</u>	<u>28,020</u>
Total Expenses	<u>\$ 2,896,736</u>	<u>\$ 2,823,949</u>
Change in Net Position before Capital Contributions	\$ 86,629	\$ 200,109
Capital Contributions	<u>73,302</u>	<u>36,305</u>
Change in Net Position	159,931	236,414
<u>Total Net Position, January 1</u>	<u>\$ 10,665,046</u>	<u>\$ 10,428,632</u>
<u>Total Net Position, December 31</u>	<u>\$ 10,824,977</u>	<u>\$ 10,665,046</u>

Analysis of the Condensed Comparative Statement of Revenues, Expenses & Changes in Fund Net Position

Revenues

Water operating revenues decreased by \$32,468 in 2013, due to decreases in water sales and unaccounted for water partially offset by rate increases. Nonoperating revenues which consist of interest income from investments decreased by \$8,225 due to the change in fair market value of the District's investments.

Water District No. 125 of King County
Management's Discussion and Analysis
Year Ended December 31, 2013

Analysis of the Condensed Comparative Statement of Revenues, Expenses & Changes in Fund Net Position (Continued)

Expenses

Operating expenses increased by \$72,230 in 2013 due to increased administration and transmission costs partially offset by decreased water costs. Administrative and general operating expenses increased by \$40,263 partially due to increases in the maintenance costs of the District's buildings. Transmission costs increased by \$27,837, primarily due to increases in meter maintenance, permits, and service labor partially offset by decreases in reservoir maintenance and supplies. Water costs decreased by \$6,805 due to decreased usage partially offset by rate increases at Seattle Public Utilities.

Nonoperating expenses consist of interest expense on long-term debt, as well as losses on capital asset dispositions. There were no disposals of fixed assets in 2013 and 2012 included a loss of \$10,817 on the disposal of capital assets.

Capital Contributions

Capital contributions increased by \$36,997 in 2013, due to construction activity within the District's boundaries.

Change in Net Position

Net position increased by \$159,931 in 2013, reflecting the fact that total revenues and capital contributions exceeded total expenses.

Analysis of Overall Financial Condition

The District's overall financial condition improved in 2013, with an increase in net assets, adequate liquid assets and continued positive operating cash flow.

In order to ensure that the District's financial condition remains strong, rate increases were enacted effective January and March, 2013 with another rate increase planned for 2014.

Water District No. 125 of King County
Management's Discussion and Analysis
Year Ended December 31, 2013

Capital Assets

Capital assets consist of land, construction in progress, utility plant and equipment, less accumulated depreciation. The total decrease in the District's investment in capital assets for the current year was \$54,766. The principal projects included in 2013 capital spending were various main replacement projects and efficiency upgrades to the District's headquarters. Donated systems (infrastructure donated by developers) in the amount of \$8,103 are included in the 2013 change in net capital assets. Over the next five years it is anticipated that capital spending will be around \$400,000. The areas of major emphasis in the capital budget include various main replacement and improvement projects. See Note 3.

Capital assets activity for the year ended December 31, 2013 was as follows:

	<u>Balance</u> <u>12/31/13</u>	<u>Balance</u> <u>12/31/12</u>	<u>Change</u>
Land	\$ 550,680	\$ 550,680	\$ -
Construction in Progress	10,120	-	10,120
Plant	13,328,895	13,011,538	317,357
Equipment	582,012	582,012	-
Intangibles	944,172	944,172	-
Accumulated Depreciation	<u>(5,241,070)</u>	<u>(4,858,827)</u>	<u>(382,243)</u>
Total Capital Assets, Net	<u>\$ 10,174,809</u>	<u>\$ 10,229,575</u>	<u>\$ (54,766)</u>

Long-Term Debt

At December 31, 2013, the District had total Public Works Trust Fund loans outstanding of \$1,136,704. The total long-term debt of the District decreased by \$88,528 during 2013 due to principal payments made on Public Works Trust Fund Loans. See Note 5.

The District does not plan on issuing new debt in 2014 or 2015.

Additional Comments

As the customer base in the District is not experiencing significant growth, future revenue growth will likely be driven by rate increases. The District expects their operating expenses to continue to grow in line with revenues.

Water District No. 125 of King County
Statement of Net Position
December 31, 2013

ASSETS

Current Assets

Maintenance Fund:

Cash & Cash Equivalents	\$ 1,546,577
Accrued Interest Receivable	646

Receivables: (Net)

Customer Accounts Receivable	272,724
Accrued Utility Revenue	204,830
Developer Accounts Receivable	968
Other Accounts Receivable	490

Inventories	44,686
-------------	--------

Prepayments	<u>38,475</u>
-------------	---------------

Total Current Assets	<u>\$ 2,109,396</u>
----------------------	---------------------

Noncurrent Assets

Capital Assets Not Being Depreciated:

Land	\$ 550,680
Construction in Progress	10,120

Capital Assets Net of Accumulated Depreciation:

Plant	8,683,071
Equipment	366,472
Intangibles	<u>564,466</u>

Total Capital Assets	<u>\$ 10,174,809</u>
----------------------	----------------------

Total Noncurrent Assets	<u>\$ 10,174,809</u>
-------------------------	----------------------

Total Assets	<u>\$ 12,284,205</u>
--------------	----------------------

See accompanying notes.

Water District No. 125 of King County
Statement of Net Position
December 31, 2013

LIABILITIES

Current Liabilities

Accounts Payable - Maintenance	\$ 187,492
Public Works Trust Fund Loans (Current Portion)	88,527
Interest Payable - PWTF Loans	7,776
Accrued Wages	5,489
Accrued Taxes	14,982
Other Payables	12,239
Meter Deposits	<u>1,000</u>
Total Current Liabilities	<u>\$ 317,505</u>

Noncurrent Liabilities

Public Works Trust Fund Loans (Less Current Portion)	\$ 1,048,177
Compensated Absences	<u>93,546</u>
Total Noncurrent Liabilities	<u>\$ 1,141,723</u>
Total Liabilities	<u>\$ 1,459,228</u>

NET POSITION

Net Investment in Capital Assets	\$ 9,037,105
Unrestricted	<u>1,787,872</u>
Total Net Position	<u>\$ 10,824,977</u>

See accompanying notes.

Water District No. 125 of King County
Statement of Revenues, Expenses and Changes in Fund Net Position
Year Ended December 31, 2013

Operating Revenues

Water Sales	\$ 2,906,778
Penalties and Miscellaneous	<u>76,234</u>
Total Operating Revenues	<u>\$ 2,983,012</u>

Operating Expenses

Water Costs	\$ 1,142,763
Transmission and Distribution	430,464
Customer Accounts	137,056
Administrative and General	758,883
Street Lighting Cost	29,226
Depreciation	352,979
Amortization	<u>29,264</u>
Total Operating Expenses	<u>\$ 2,880,635</u>

Operating Income (Loss)	\$ 102,377
-------------------------	------------

Nonoperating Revenues (Expenses)

Investment Income	\$ 353
Interest Expense	<u>(16,101)</u>
Total Nonoperating Revenues (Expenses)	<u>\$ (15,748)</u>
Income (Loss) Before Contributions	\$ 86,629

Capital Contributions	<u>73,302</u>
-----------------------	---------------

Change in Net Position	\$ 159,931
------------------------	------------

<u>Total Net Position - January 1</u>	<u>\$ 10,665,046</u>
---------------------------------------	----------------------

<u>Total Net Position - December 31</u>	<u>\$ 10,824,977</u>
---	----------------------

See accompanying notes.

Water District No. 125 of King County
Statement of Cash Flows
Year Ended December 31, 2013

Cash Flows From Operating Activities

Cash Received from Customers	\$ 2,983,226
Cash Paid to Suppliers	(1,786,477)
Cash Paid to Employees	<u>(595,002)</u>
Net Cash Provided by Operating Activities	<u>\$ 601,747</u>

Cash Flows From Capital & Related

Financing Activities

Acquisition & Construction of Capital Assets	\$ (330,116)
Cash Contributions in Aid of Construction	77,485
Principal Payments on Public Works Trust Fund Loans	(88,528)
Interest Paid on Public Works Trust Fund Loans	<u>(16,652)</u>
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>\$ (357,811)</u>

Cash Flows From Investing Activities

Interest Received on Investments	<u>\$ 305</u>
Net Cash Provided by Investing Activities	<u>\$ 305</u>

Net Increase (Decrease) in Cash & Cash Equivalents	\$ 244,241
--	------------

<u>Cash and Cash Equivalents</u> - January 1	<u>1,302,336</u>
--	------------------

<u>Cash and Cash Equivalents</u> - December 31	<u>\$ 1,546,577</u>
--	---------------------

Noncash Investing, Capital & Financing Activities

Contribution of Capital Assets from Developers	<u>\$ 8,103</u>
--	-----------------

See accompanying notes.

Water District No. 125 of King County
Statement of Cash Flows
Year Ended December 31, 2013

Reconciliation of Operating Income (Loss)
to Net Cash Provided by Operating Activities

Operating Income (Loss)	\$ 102,377
-------------------------	------------

Adjustments to Reconcile Operating Income (Loss)
to Net Cash Provided by Operating Activities

Depreciation	\$ 352,979
Amortization	29,264

Change in Assets & Liabilities

(Increase) Decrease in Customer Accounts Receivable	6,759
(Increase) Decrease in Accrued Utility Revenue	(6,534)
(Increase) Decrease in Other Accounts Receivable	(11)
(Increase) Decrease in Inventories	2,850
(Increase) Decrease in Prepayments	35,320
Increase (Decrease) in Accounts Payable - Maintenance	80,268
Increase (Decrease) in Accrued Wages	2,588
Increase (Decrease) in Compensated Absences	(3,765)
Increase (Decrease) in Accrued Taxes	(348)

Total Adjustments	\$ 499,370
-------------------	------------

Net Cash Provided by Operating Activities	\$ 601,747
---	------------

See accompanying notes.

Water District No. 125 of King County
Notes to Financial Statements
Year Ended December 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Water District No. 125 conform to generally accepted accounting principles (GAAP) as applicable to proprietary funds of governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the most significant accounting policies of the District:

a. Reporting Entity

Water District No. 125 is a municipal corporation governed by an elected, three member board. The District's primary activity is to provide water service to residential and commercial customers within the District's boundaries. All water sold by the District is purchased from the City of Seattle, Washington and other water districts. As required by generally accepted accounting principles, management has considered all potential component units in defining the reporting entity. The District has no component units.

b. Basis of Accounting and Presentation

The accounting records of the District are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW. The District uses the uniform system of accounts for water utilities as prescribed by the National Association of Regulatory Utility Commissioners.

The District uses the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Unbilled utility service receivables are recorded at year end. Capital asset costs are capitalized.

The District distinguishes between operating revenues and expenses and nonoperating revenues and expenses. Operating revenues and expenses result from providing services and producing and delivering goods in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for water sales and related services. Operating expenses pertain to the furnishing of those services which include the cost of sales and services, administration expenses and depreciation expense. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

c. Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Water District No. 125 of King County
Notes to Financial Statements
Year Ended December 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

d. Capital Assets

Utility plant in service is recorded at cost. Donations by developers are recorded at the developer's cost. Depreciation is calculated on the straight-line method with useful lives of five to forty years. Upon retirement of an asset, the cost of the asset and the related accumulated depreciation are removed from the property accounts and the gain or loss is reflected in the statement of revenues, expenses and changes in fund net position.

Repairs and maintenance are expensed as incurred, while major renewals, replacements and betterments are capitalized.

Preliminary planning and design costs incurred for proposed projects are deferred pending construction of the facility. Costs relating to projects which are ultimately constructed are transferred to capitalized utility plant. Costs relating to those projects abandoned are charged to expense when it is determined that they will not be completed.

See Note 3.

e. Receivables

Receivables consist primarily of amounts due from water customers. There may also be amounts due from developers and other districts and municipalities. All receivables are recorded when earned. No allowance for uncollectible accounts is provided since the District has power to record liens for its receivables and, generally, does not experience significant uncollectible amounts.

f. Inventories

Inventory of materials is recorded at cost on the first-in/first-out basis, and a physical inventory is taken at the end of each calendar year.

g. Investments

Investments are recorded at fair market value. See Note 2.

h. Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. The District records unpaid leave for compensated absences as an expense and liability when incurred. See Note 5.

i. Subsequent Events

Management has evaluated subsequent events through May 29, 2014, the date the financial statements were available to be issued.

Water District No. 125 of King County
Notes to Financial Statements
Year Ended December 31, 2013

NOTE 2 - DEPOSITS AND INVESTMENTS

The District's cash and investment balances at December 31, 2013 are listed below.

	<u>2013</u>
Petty Cash	\$ 650
Bank Deposit Accounts	6,600
Investment in King County Investment Pool	<u>1,539,327</u>
Total Cash & Investments	<u>\$ 1,546,577</u>

The District's deposits in bank accounts are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

In accordance with state investment laws, the District's governing body has entered into a formal interlocal agreement with the District's *ex officio* treasurer, King County, to have all its funds not required for immediate expenditure to be invested in the King County Investment Pool (Pool).

As of December 31, 2013, the District had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Effective Duration</u>
King County Investment Pool	\$ 1,539,327	1.23 Years

Impaired Investments. As of December 31, 2013, all impaired commercial paper investments have completed enforcement events. The King County impaired investment pool (Impaired Pool) held one commercial paper asset where the Impaired Pool accepted an exchange offer and is receiving the cash flows from the investment's underlying securities. The impaired pool also held the residual investments in four commercial paper assets that were part of completed enforcement events, where the Impaired Pool accepted the cash out option. The District's share of the impaired investment pool principal is \$1,925 and the District's fair value of these investments is \$1,140.

Interest Rate Risk. As of December 31, 2013, the Pool's average duration was 1.23 years. As a means of limiting its exposure to rising interest rates, securities purchased in the Pool must have a final maturity, or weighted average life, no longer than five years. While the Pool's market value is calculated on a monthly basis, unrealized gains and losses are not distributed to participants. The Pool distributes earnings monthly using an amortized cost methodology.

Water District No. 125 of King County
Notes to Financial Statements
Year Ended December 31, 2013

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

Credit Risk. As of December 31, 2013, the District's investment in the Pool was not rated by a nationally recognized statistical rating organization (NRSRO). In compliance with state statutes, Pool policies authorize investments in U.S. Treasury securities, U.S. agency securities and mortgage-backed securities, municipal securities (rated at least "A" by two NRSROs), commercial paper (rated at least the equivalent of "A-1" by two NRSROs), certificates of deposits issued by qualified public depositories, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer's office.

NOTE 3 - CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2013 was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 550,680	\$ -	\$ -	\$ 550,680
Construction in Progress	-	10,120	-	10,120
<u>Total capital assets not being depreciated</u>	<u>550,680</u>	<u>10,120</u>	<u>-</u>	<u>560,800</u>
Capital assets being depreciated:				
Plant	13,011,538	317,357	-	13,328,895
Equipment	582,012	-	-	582,012
Intangibles	944,172	-	-	944,172
<u>Total capital assets being depreciated</u>	<u>14,537,722</u>	<u>317,357</u>	<u>-</u>	<u>14,855,079</u>
Less Accumulated Depreciation	4,858,827	382,243	-	5,241,070
<u>Total capital assets being depreciated, net</u>	<u>9,678,895</u>	<u>(64,886)</u>	<u>-</u>	<u>9,614,009</u>
 <u>TOTAL CAPITAL ASSETS, NET</u>	 <u>\$ 10,229,575</u>	 <u>\$ (54,766)</u>	 <u>\$ -</u>	 <u>\$ 10,174,809</u>

Water District No. 125 of King County
Notes to Financial Statements
Year Ended December 31, 2013

NOTE 3 - CAPITAL ASSETS (Continued)

The District capitalizes the interest cost during the construction period of its utility plant if the construction period exceeds one year. In 2013, the total interest cost was \$16,101 of which no amounts were capitalized as construction period interest. The District also capitalizes employee wage and benefit costs in connection with construction of utility plant.

The practice of the District is to use a capitalization threshold of \$1,000.

NOTE 4 - CONSTRUCTION IN PROGRESS

Construction in progress represents expenses to date on projects whose authorizations total \$305,807. Of the committed balance of \$297,687, the District will not be required to incur any future financing.

	<u>Project Authorization</u>	<u>Expended to 12/31/13</u>	<u>Committed</u>	<u>Anticipated Future Financing</u>
Tukwila 42 nd Ave S	\$ 9,455	\$ 9,455	\$ -	\$ -
14-1 Water Main Replace	<u>296,352</u>	<u>665</u>	<u>295,687</u>	<u>-</u>
Totals	<u>\$ 305,807</u>	<u>\$ 10,120</u>	<u>\$ 295,687</u>	<u>\$ -</u>

NOTE 5 - LONG-TERM DEBT

Public Works Trust Fund Loans

The District has entered into agreements with the Department of Community, Trade and Economic Development of the State of Washington to receive the following Public Works Trust Fund Loans:

	<u>2013</u>
2004 loan - payable at \$4,566 annually through the year 2024, plus interest at ½% per annum Original debt: \$101,150	\$ 50,227
2005 loan - payable at \$57,645 annually through the year 2025, plus interest at ½% per annum Original debt: \$1,088,850	691,740
2008 loan - payable at \$26,316 annually through the year 2028, plus interest at 3% per annum Original debt: \$500,000	<u>394,737</u>
	<u>\$ 1,136,704</u>

Water District No. 125 of King County
Notes to Financial Statements
Year Ended December 31, 2013

NOTE 5 - LONG-TERM DEBT (Continued)

The annual requirements to amortize all Public Works Trust Fund loans outstanding as of December 31, 2013, including interest, are as follows:

<u>Year Ended December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 88,527	\$ 15,552	\$ 104,079
2015	88,527	14,451	102,978
2016	88,527	13,351	101,878
2017	88,527	12,250	100,777
2018	88,527	11,150	99,677
2019 - 2023	442,635	39,241	481,876
2024 - 2028	<u>251,434</u>	<u>12,730</u>	<u>264,164</u>
	<u>\$1,136,704</u>	<u>\$ 118,725</u>	<u>\$1,255,429</u>

Changes in Long-Term Debt

During the year ended December 31, 2013, the following changes occurred in long-term debt:

	<u>Balance 1/1/13</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/13</u>	<u>Due in One Year</u>
Public Works Trust Fund Loans	\$1,225,232	\$ -	\$ (88,528)	\$1,136,704	\$ 88,527
Compensated Absences	<u>97,311</u>	<u>-</u>	<u>(3,765)</u>	<u>93,546</u>	<u>-</u>
Total Long-Term Debt	<u>\$1,322,543</u>	<u>\$ -</u>	<u>\$ (92,293)</u>	<u>\$1,230,250</u>	<u>\$ 88,527</u>

Water District No. 125 of King County
Notes to Financial Statements
Year Ended December 31, 2013

NOTE 6 - PENSION PLAN

Substantially all District full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to GASB Statements 27, *Accounting for Pensions by State and Local Government Employers* and 50, *Pension Disclosures, an Amendment of GASB Statements 25 and 27*.

Public Employees' Retirement System (PERS) Plans 1, 2 and 3

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; employees of district and municipal courts; and employees of local governments. Membership also includes higher education employees not participating in higher education retirement programs. Approximately 49 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3.

Water District No. 125 of King County
Notes to Financial Statements
Year Ended December 31, 2013

NOTE 6 - PENSION PLAN (Continued)

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment.

PERS Plan 1 members are vested after the completion of five years of eligible service.

PERS Plan 1 members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with 25 years of service, or at age 60 with 5 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is \$350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount.

Water District No. 125 of King County
Notes to Financial Statements
Year Ended December 31, 2013

NOTE 6 - PENSION PLAN (Continued)

A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest paid service months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PERS Plan 2 members who have at least 20 years of service credit and are 55 years of age or older are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 1, 2013:

- With a benefit that is reduced by 3 percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

PERS Plan 2 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

Water District No. 125 of King County
Notes to Financial Statements
Year Ended December 31, 2013

NOTE 6 - PENSION PLAN (Continued)

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

For DRS' fiscal year 2013, PERS Plan 3 employee contributions were \$99.0 million, and plan refunds paid out were \$69.4 million.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, and were hired before May 1, 2013, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.
- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

PERS Plan 3 benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

Water District No. 125 of King County
Notes to Financial Statements
Year Ended December 31, 2013

NOTE 6 - PENSION PLAN (Continued)

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a PERS member who dies as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans as of June 30, 2012:

Retirees and Beneficiaries Receiving Benefits	82,242
Terminated Plan Members Entitled To But Not Yet Receiving Benefits	30,515
Active Plan Members Vested	106,317
Active Plan Members Nonvested	44,273
Total	263,347

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan I are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent.

Water District No. 125 of King County
Notes to Financial Statements
Year Ended December 31, 2013

NOTE 6 - PENSION PLAN (Continued)

Funding Policy (Continued)

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2013 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	9.21%**	9.21%**	9.21%***
Employee	6.00%****	4.92%****	*****

*The employer rates include the employer administrative expense fee currently set at 0.18%.

**The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% for Plan 2 and Plan 3.

***Plan 3 defined benefit portion only.

****The employee rate for state elected officials is 7.5% for Plan 1 and 4.92% for Plan 2.

*****Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Both the District and the employees made the required contributions. The District's required contributions for the years ended December 31 were as follows:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
2013	\$ -	\$ 37,788	\$ 8,201
2012	\$ -	\$ 32,021	\$ 6,847
2011	\$ -	\$ 26,593	\$ 5,525

Water District No. 125 of King County
Notes to Financial Statements
Year Ended December 31, 2013

NOTE 7 - RISK MANAGEMENT

The District is member of the Water and Sewer Risk Management Pool (Pool). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insurance, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The Pool was formed in November 1987 when water and sewer districts in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. The Pool currently has 70 members. The Pool's fiscal year is November 1st through October 31st.

The Pool allows members to jointly purchase insurance coverage, establish a plan of self-insurance coverage, and provide related services, such as risk management and loss prevention. The Pool provides the following forms of group purchased insurance coverage for its members: Property (including Building, Electronic Data Processing, Boiler and Machinery, and Mobile Equipment); General Liability; Automotive Liability; Excess Liability; Crime; Public Officials Liability; Identity Fraud Reimbursement Program; and bonds of various types. All coverages are on an "occurrence" basis.

Members make an annual contribution to fund the Pool. The Pool purchases insurance policies from unrelated underwriters as follows:

Coverage	Subject to Self-Insured Retention by Pool	Description
General Liability	\$200,000	Includes General Liability, Public Officials Liability and Automobile Liability;
Property Insurance	\$25,000	Except earthquake and flood which is subject to a deductible of 5% of the values at risk at the time of the loss subject to a minimum of \$100,000. Properties located in NFIP Flood Zones A and V are subject to a \$250,000 deductible.
Boiler & Machinery	\$25,000	Per occurrence
Crime	\$25,000	Per occurrence
Cyber	\$50,000 \$100,000	Per occurrence for members with TIV less than \$500,000 Per occurrence for members with TIV greater than \$500,000
Identity Theft	\$0	Reimbursement of up to \$25,000 for covered expenses

Water District No. 125 of King County
Notes to Financial Statements
Year Ended December 31, 2013

NOTE 7 - RISK MANAGEMENT (Continued)

Pool members are responsible for a deductible on each coverage and the Pool is responsible for the remainder of the self-insured retention listed in the table above. The insurance carriers then cover the loss to the maximum limit of the policy. Each member is responsible for the full deductible applicable to the perils of earthquake and flood (the Pool is not responsible for any deductible or self-insured retention for earthquake and flood claims).

Upon joining, the members contract to remain in the Pool for one full policy period. Following completion of one full policy period, members must give six months' notice before terminating participation (e.g. to withdraw from the Pool on November 1, 2012, written notice must be in the Pool possession by April 30, 2012). The Interlocal Governmental Agreement is renewed automatically each year. Even after termination of relationship with the Pool, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in process claims, for the period that the District was a signatory to the Interlocal Governmental Agreement.

The Pool is fully funded by its member participants. Claims are filed by members with the Pool who determines coverage and performs claims adjustment in consultation with Arcadia Claims Services. In FY 2012-2013 the Pool engaged AssetWorks who performed appraisal services valued at \$26,861, for approximately one third of all member structures valued at \$250,000 or more.

The Pool is governed by a Board of Directors, which is comprised of one designated representative from each participating member. An Executive Committee is elected at the annual meeting, and is responsible for overseeing the business affairs of the Pool and providing policy direction to the Pool's Executive Director.

NOTE 8 - JOINT FACILITIES

- a. Water District No. 125 is a 25% participant in a joint reservoir operated by Skyway Water and Sewer District. The District paid 25% of the cost of construction and, thereby, acquired a lease of 25% of the reservoir capacity for 50 years beginning November 1, 1996. The cost of acquiring this leasehold interest is being amortized over 46 years beginning November 1, 2001. The District shares the costs of operating and maintaining the reservoir. Its share of these costs was \$0 for 2013 as the District is billed biannually. Information about all aspects of this contract is available in the District office.
- b. Water District No. 125 is a participant in a joint reservoir operated by Water District No. 20. On April 11, 2002 the District executed a new agreement which expires December 31, 2022. Under the agreement, the District purchases a portion of its water from Water District No. 20 and shares in the costs of operating and maintaining the reservoir. Its share of these costs was approximately \$25,626 for 2013. Information about all aspects of this contract is available in the District office.

Water District No. 125 of King County
Notes to Financial Statements
Year Ended December 31, 2013

NOTE 9 - COMMITMENTS AND CONTINGENT LIABILITIES

a. Water Supply Contract

On March 28, 2002, the District entered into a full requirements water supply contract with the City of Seattle. The contract runs through December 31, 2061. The city agrees to supply 100% of the District's water requirements and the District agrees to purchase 100% of its wholesale water from the city, with the exception of water purchased from other Districts under existing intertie agreements.

New rates and facilities charges, determined by Seattle, become effective annually. Information about these charges and other aspects of the contract is available in the District office.

b. Water Delivery and Sub-Metering Agreement

On April 16, 2004, effective January 1, 2004, the District entered into a Water Delivery and Sub-Metering Agreement between itself and the City of Seattle, Skyway Water and Sewer District and the Cascade Water Alliance, which amends the water supply contract mentioned in Note 9(a), above. This agreement provides for the District to receive Seattle water through an interconnection with Skyway. Seattle will bill the District for this water and Skyway will bill the District for the capital costs and operation & maintenance costs associated with the flow and metering of the water.

This agreement expires December 31, 2053 but can be terminated by any party with one year's written notice to the other parties.

A copy of the contract is available in the District office.

c. Joint Administration Building

On August 14, 2005, the District entered into an agreement with Valley View Sewer District for the construction and operation of a joint administration building on property owned by Water District No. 125. The building was completed and occupied in 2007. The Districts are tenants in common, each having a 50% interest in the shared parcel and are operating under a condominium agreement.

Details of the agreements are available in the District office.

NOTE 10 - USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office	
Deputy Director for Communications	Thomas Shapley Thomas.Shapley@sao.wa.gov (360) 902-0367
Public Records requests	(360) 725-5617
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov